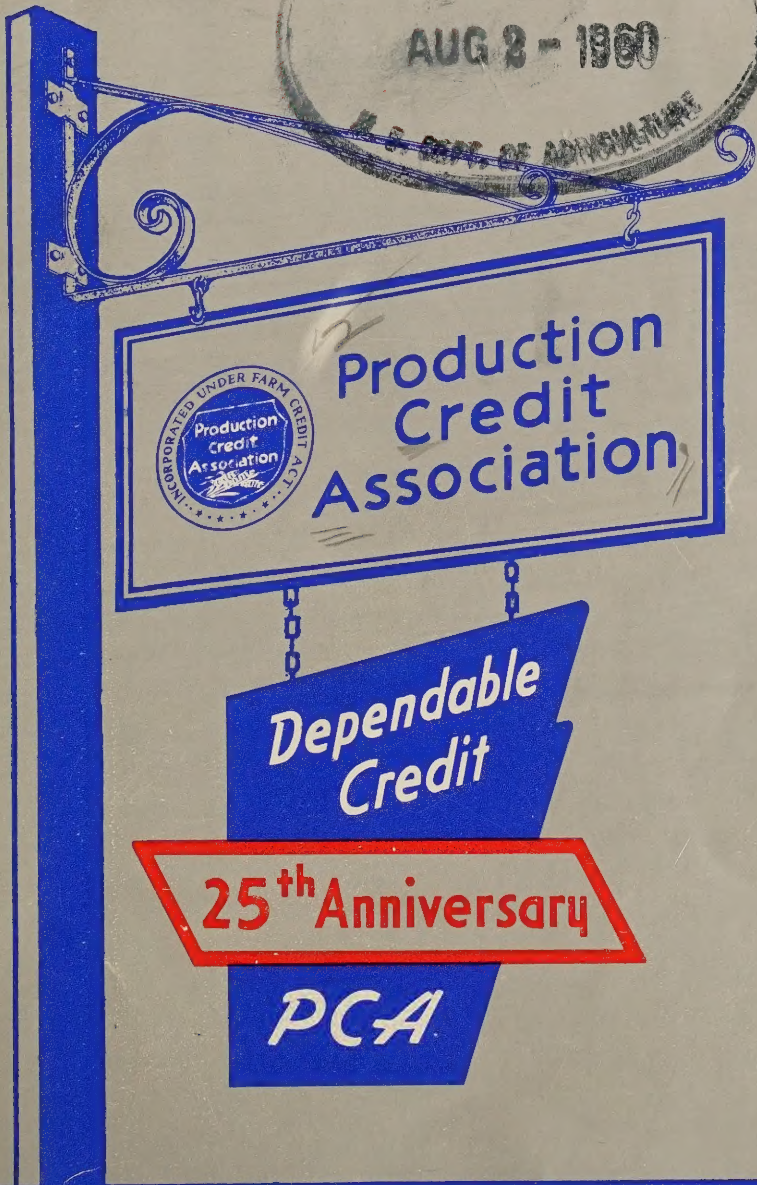
Dependable Credit for Modern Agriculture



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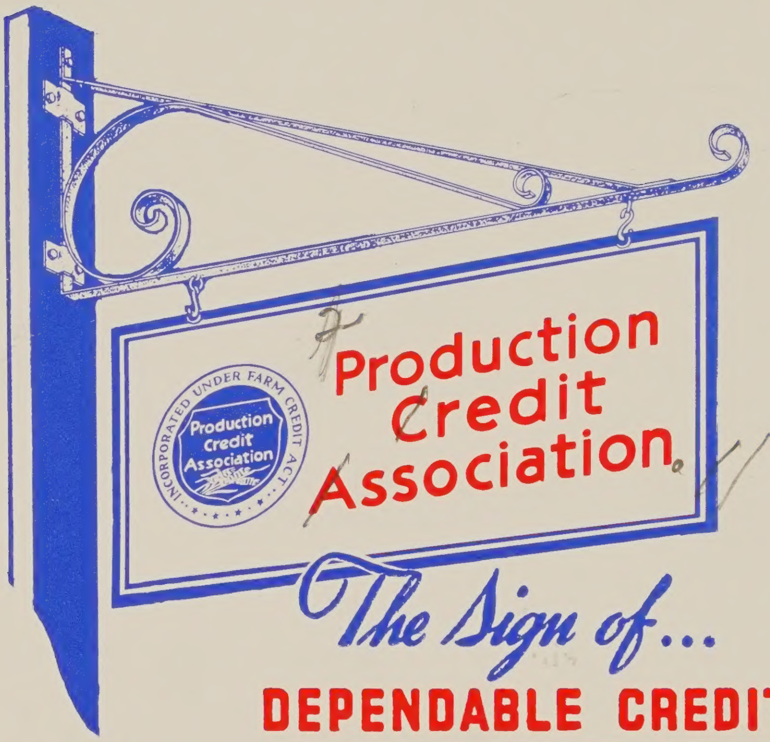


The Sign of...

DEPENDABLE CREDIT

Dependable Credit For Modern Agriculture

ASK A member of a local production credit association what the production credit system has meant to him in the past 25 years and he is most likely to come back quickly with "dependable credit." The slogan — "The Sign of Dependable Credit" — is linked with the familiar production credit association signs which now help farmers and ranchers spot the offices of these credit cooperatives in the Nation's farm trading centers. It has real meaning to farmers familiar with the system.

Farmers and Ranchers Borrow $2 Billion Yearly

Today, farmers borrow about $2 billion a year in credit from their production credit associations. They borrow for things ranging from operating expenses such as fertilizer and feed to college educations for their children — from tractors and heavy machinery and equipment to payment of medical bills, insurance and taxes. Farmers have used their associations for practically every need around their farm and home.

It was a dependable source of credit adapted to their specific needs that farmers sought in the early thirties. That is why farmers and their leaders backed the passage of the Farm Credit Act of 1933. By this Act, Congress helped put farmers in the short-term credit business. For the first time, farmers were given a "voice" in setting short-term credit policies. The cooperative Production Credit System's first quarter century of operation clearly shows that the Nation's farmers were equal to the opportunity. They and our nation are the better for it.

Prior to 1933, short-term credit

was an illusive thing. It was readily available in boom times, yet grossly inadequate when the going was rough — when credit was needed the most. In bad times many lenders serving rural communities not only couldn't lend money but had to call their loans to meet heavy demands for money. This compounded the farmers' problems. When a farmer was forced to repay his loan on short notice, he often suffered heavy losses. He had to sell crops and livestock either before they were ready for market or when the market prices were depressed.

Geared To Farmers' Needs

From the beginning the Production Credit System began to change this. It instituted many loan services that better fitted the farmers' needs. The farmer, then, was given a "voice" in credit and during the past 25 years has used it well.

In the past quarter century, the dependability of the Production Credit System has been put through many serious tests — depression years, war years, boom years, droughts and floods. As late as the fall of 1957, for example, during the period when the "tight money market" was stealing headlines from the political and military developments in the world, the System again proved its right to the dependability claim. Despite the situation which found money in very short supply and at rapidly rising rates, not one farmer was turned away by his local production credit association because of a shortage of funds.

Substitution: Capital for Labor

The world has been well-aware of the agricultural revolution that has taken place in the United States during the past 25 years. Yet, very little is ever said about the important part credit has played in this leap-frogging progress. Probably because it is more dramatic, we are inclined to tabulate this progress in terms of more bushels to the acre, more power machines and less horses and mules in use on farms — less people raising more on fewer acres.

Truly, it is an inspiring story. In the last 18 years alone American farmers with one-third fewer farmworkers have increased their total production nearly 40 percent. They have increased production per man by 100 percent. However, this increase in efficiency has come about chiefly through the simple substitution of capital for labor.

PCA Sets Lending Pace

When the farmer needed money for capital, it was available to him. And his Production Credit System was in large part responsible for this capital being available. True, the associations have not supplied all the credit for such purposes. Far from it. Rather their under-

Annual meetings provide each PCA member the opportunity to voice opinions and offer suggestions on the operation of his association. Many improvements in PCA service have originated with members.

standing and willingness to lend for such purposes on terms suited to farmers' needs pointed the way for other lenders.

When the American farmers started organizing their local credit cooperatives — production credit associations — just what were they building? In the beginning, their fondest hope, as mentioned earlier, was to gain a dependable source of credit. They have achieved this — and much more — as a result of hard work, understanding and loyalty to their credit cooperatives.

Farmers Run Associations

Farmers run their associations through locally-elected boards of directors. These boards know what is required to successfully farm in their own localities. They have worked out sound lending practices carefully geared to local conditions and requirements. Thus, they are able to adapt the lending policies of the System to local conditions and to the particular requirements of individual farmers.

Although production credit associations are local in character, they are part of a nationwide credit system — covering the entire United States including Puerto Rico. Most of the 497 production credit associations serve several counties. To make their credit services more readily available, the associations, in addition to their headquarter's office, maintain full- or part-time field offices.

Loans Fit Farmers' Needs

Production credit association loans are set up to mature at a time when members will have something to sell and are made for the length of time needed to soundly finance a particular operation. For example, a farmer can get a loan to cover the period from when he plants his crop through harvest and until he sells his products in an orderly manner. A dairyman can arrange his repayment program so it is geared to his monthly milk checks, if he so desires. In other words, production credit is made to fit the farmer, rather than making the farmer fit the credit service.

One of the first questions strangers to the System ask is: "Where does the Production Credit System get the money it loans to members?" The answer to that question brings up a very important contribution the System has made to short-term farm lending. It has provided a channel through which funds from the nation's money centers flow to the farmers.

Farmers Tap Money Market

Farmers, through their production credit associations and the 12 Federal intermediate credit banks, have access to funds obtained in the large money centers. These banks sell short-term bonds, known as debentures, to the investing public. These banks use the proceeds from the sale of these securities to purchase notes of the farmer-borrowers of production credit associations. These Federal intermediate credit banks may also perform the same service for national or State banks, trust companies, agricultural credit corporations and livestock loan companies.

In short, the 12 Federal inter-

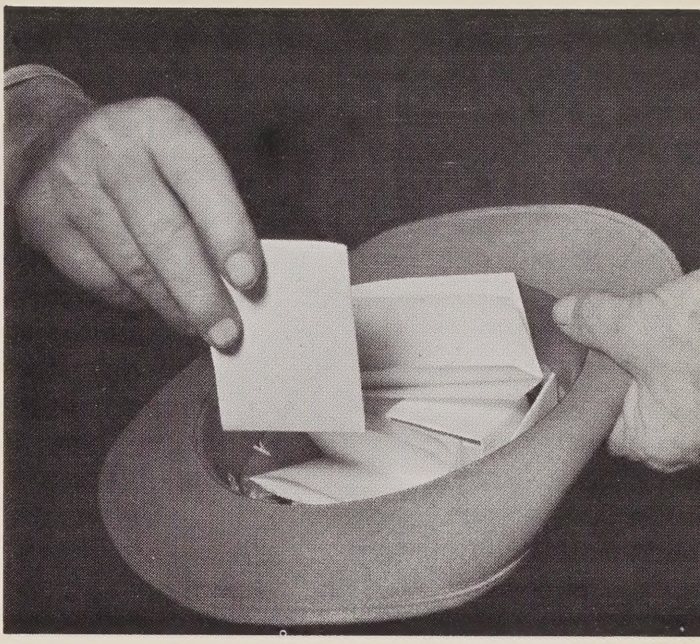
mediate credit banks act as credit wholesalers for the associations. The rates the credit banks charge the production credit associations fluctuate, of course, depending upon the rates the banks have to pay on their debentures. The difference between the rates they pay and the rates they charge, together with other income, is used to pay operating costs, build reserves and pay Federal franchise taxes. The remaining income is returned as patronage refunds which are paid to production credit associations in the form of capital stock of the banks and to other financing institutions in participation certificates.

The Federal intermediate credit banks are a vital link in the chain that goes to make up this cooperative credit system. These banks are in no small way responsible for the fact that farmers may now borrow — for short-term and intermediate-term purposes — at interest rates comparable to those businesses pay, a condition that did not exist before the Production Credit System started in 1933.

Credit Experience Helps Farmers

Experience with their own production credit associations has helped farmers in other ways. Farmers soon learned that the field of finance is not such a complicated, mysterious thing. Farmers have become their own financiers through production credit associations.

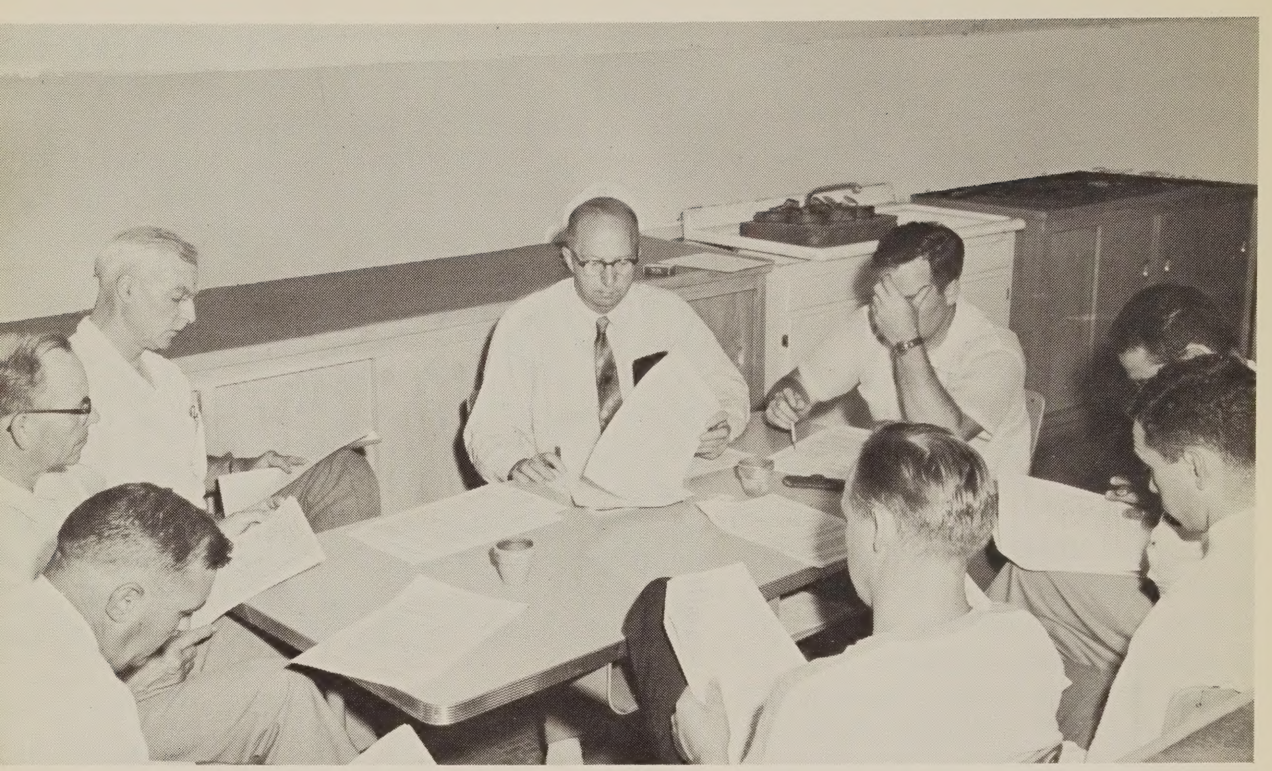
In getting loans from their associations, farmers carefully consider their operations for at least a full year. They estimate their operating expenses, the time they will occur, and also their probable income. By so doing, they can apply for the amount of credit needed to see them through and have it available, as needed. Expansion of farm businesses has brought about a greater need for record-keeping, to check on the efficiency of various farm operations as well as for tax purposes. Lessons farmers have learned through working with their local production credit associations have proved very helpful.



Each PCA member is entitled to one vote in the affairs of the association, including the election of the board of directors at the annual meeting.

Use Credit Like Farm Tool

Through experience with the Production Credit System, farmers have learned that credit is often necessary to bring about the expansion of their farming operations and increase efficiency. Most farmers have come to regard the wise use of credit as another one of their



Each PCA board of directors meets regularly to determine its association's policies. It also selects the manager (secretary-treasurer).

farm tools — vital to the farm operation. These farmers have learned to use credit first for necessities, and, then, for needs. The wants or luxuries come last in order of importance. This has been a very helpful guidepost, particularly for those just getting a start in farming.

Loan Losses Low

Farm cooperatives are often looked upon as organizations designed to set the pace in a given field. Production credit associations present an outstanding example of such leadership. These credit cooperatives have initiated many services to their members that have since become standard practice in short-term farm lending.

For example, production credit associations, rather than basing loans primarily upon the value of collateral offered as security for a loan, give particular weight to the member's repayment capacity. Success of this philosophy is borne out by the fact that losses and provision for losses from lending in the 25 years' experience of the production credit associations have amounted to only about one-fifth of one percent of the total cash advanced.

Pioneered Budgeted Loan

Another "pace-setting" PCA service is the budgeted loan. Under this loan plan, a member arranges for a loan sufficient to cover his financial needs during the entire season. He gets the money as he needs it.

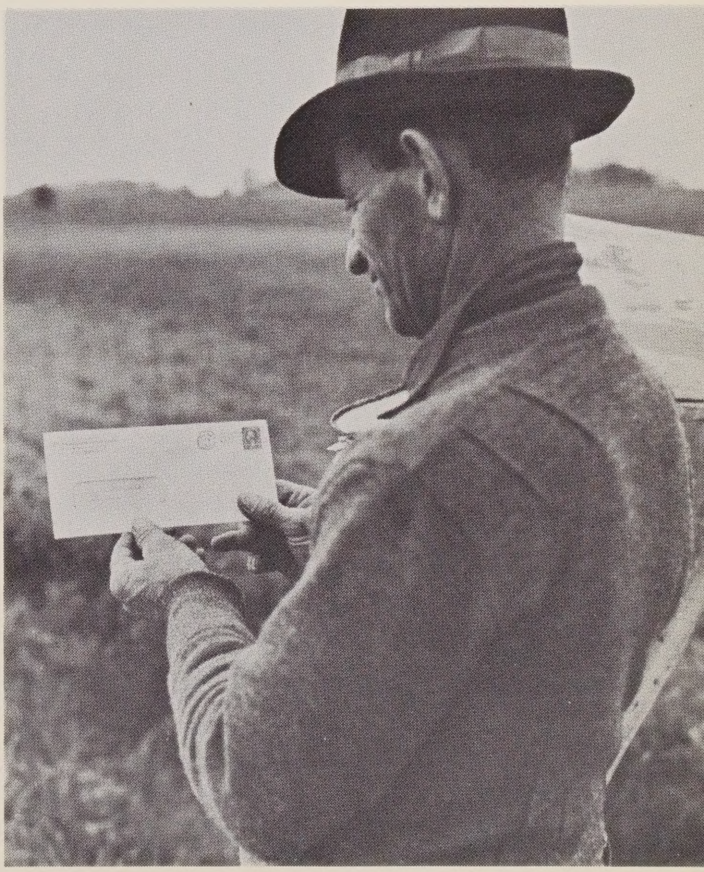
He repays the loan as he sells his farm products. A farmer does not pay interest on any part of a production credit association loan until he receives the money. When he repays any part of his loan, interest charges cease on the amount he repays. Thus, he pays interest on each dollar for only the number of days he uses it. This, of course, reduces interest costs on such loans.

These advances in production credit association lending practices did not come about by pure chance. For the most part, they emerged as a result of suggestions from farmer-directors on how to meet their ever-changing credit needs. Members, through their local annual meetings or through personal contacts with local boards or other farm credit officials, have ample opportunity to have their voices heard.

A Voice In Credit

One recent example of member contribution to changing production credit association lending practices is the intermediate-term loan, designed to fit credit needs for capital purpose items. When production credit associations first opened their doors for business in 1933, the regular production loans, written to mature within a year, were of sufficient size to cover the production, family living and other short-term expenses of members. This was a big improvement over the 60 and 90 day loans farmers had been using. However, with the increased use of heavy machinery on larger and more modernized farming operations which required greater amounts of credit, the one-year maturity was not enough.

Still, this did not create a problem because farmer-members found their local association friendly and encountered little or no difficulty in having a portion of their loans for capital purposes such as machinery renewed at the end of the year. But, as time passed, some farmers figured — "Why not have a loan program for capital purpose items extended over a longer period?" After all, farmers figured, benefits of capi-



Mutual understanding between the association and members grows over the years. Veteran PCA members soon find their association's loan service as near as the mail box.

tal purpose loans are reaped over longer periods of time than the one year period. Why go to the trouble of renewing each year?

Set Up Intermediate-term Loan

Result: The intermediate-term loan for capital purposes whereby the original loan can be made for periods up to 5 years, with specified payments each year. A farmer-member, then, has a voice in the operation of his production credit association, as well as a vote for members of the Board of Directors.

There have been other examples of the benefits of farmer ownership and control over the Production Credit System. The System is kept constantly sensitive to shifts in agriculture itself. The current cross-trend which finds farms becoming larger on one hand, yet with sudden increase in small part-time farming operations on the other, was quickly taken into account. Consequently, part-time and large farm operators use production credit association service along with typical full-time family-sized operators.

Conditions Changing

So, at this 25th Anniversary year, it would be folly to say that the Production Credit System has reached the ultimate in short-term farm lending. This may be true for the moment, but conditions keep changing, shifting — making adjustments necessary. On the other hand, considering the structure of the System, it would be safe to assume that it will move quickly with these changes and may, in fact, through a change in lending practices, spearhead progress on the farm.

To analyze the status of the Production Credit System, it is necessary to study its record of performance and growth. In its first full year — 1934 — farmers borrowed $107 million from 596 local associations. During the year ended June 30, 1958, farmers borrowed $1.9 billion from their 497 local associations. Membership in production credit associations now numbers 489,203. In the past 25 years, farmers have borrowed upwards of $19 billion in production credit association loans for just about every farm purpose you can name.

Farmers' Investment High

In order to have a dependable source of short-term credit available at all times and at reasonable rates, farmers during the past 25 years have made substantial investments in their Production Credit System. Farmers have invested $120 million in the capital stock of the production credit associations. The production credit associations have built up $108 million in reserves to strengthen their financial structure.

The initial capital stock of the production credit associations was furnished by the Government. As the stock owned by members began to accumulate and reserves were built up, the Government capital was repaid. Of the original $90 million of Government capital in the associations, there remains now less than $4 million. Of the 497 associations, all but 54 are now completely farmer-owned.

As a result of legislation enacted by Congress in 1956, the associations in turn are buying stock in

the 12 Federal intermediate credit banks. Additional ownership will accumulate as a result of capital stock issued in payment of patronage refunds by the banks. Thus, associations now own $11 million of capital stock in the 12 Federal intermediate credit banks. Such stock ownership will permit the gradual repayment of government capital in the intermediate credit banks and make them farmer-owned.

How To Get A Loan

A farmer becomes a member of the local production credit association when he takes out a loan. In becoming a member, he buys Class B (voting) stock equal to 5 percent of his loan. He can borrow any amount which the association's loan committee feels he can use constructively and can repay.

When members repay their loans they usually retain their Class B voting stock so that they can use it when they need a new loan. If, after 2 years, the member has not borrowed from the association, his stock is converted to Class A (nonvoting) stock. Thus, control of the association is always kept in the hands of those members who are using it. A member who does not have a loan may at any time list his stock with the association for sale to other members.

PCA members find that their association's loan committee—made up of two members of the board and the secretary-treasurer—understand their credit needs. The committee fits loan terms to the individual farmer's needs.

As is true in most cooperatives, membership in the association entitles the farmer to one vote. He uses this vote in electing the directors of his association. These directors, in turn, elect the association officers, including the secretary-treasurer who, as a paid employee, manages the day-to-day affairs of the association. The directors and officers of the association have the responsibility for carrying on all phases of the business, including making and servicing loans.

Farmers Approve Loans

A loan committee, made up of two members of the board of directors and the association's secretary-treasurer, goes over the loan applications. Through the years, members have found that these committees understand their problems because the directors are farmers and ranchers themselves.

Working out the details of a loan with his association has proved very helpful to farmers. To get a loan, the farmer outlines his farming operation, tells how much credit he will need, and explains how and when he plans to repay the loan. He also furnishes a financial statement showing what he owns and what he owes. A representative of the association looks over the farm to see how it is operated and to get information on the repayment capacity of the operation. The association representative and the farmer sit down together and analyze the necessary costs and probable income from which debts can be repaid. This process leads to close mutual understanding between the association and the member and helps the association provide an adequate and helpful credit service.

Normally, security required for a loan is a first lien on crops, livestock or equipment. However, some loans are made without chattel security. The production credit associations have always placed great stress on the repayment capacity of the farm or ranch business because they are interested in assisting farmers to make money for themselves rather than just making money for the associations.

Close working relationship with the source of lending funds has not been the only extra dividend gained by farmers through their cooperative Production Credit System. There have been cash dividends, too. The income of each production credit association is used: (1) to pay operating costs of the association; (2) to absorb any losses that may occur, and (3) to build reserves for the future. Income not needed for these purposes is paid to the farmer-members, either as dividends on stock or as patronage refunds. Since 1940, when the first association paid a dividend, associations have paid $6.7 million to their members in dividends and $2.6 million in patronage refunds. Patronage refunds have the effect of reducing the cost of money to the farmer.

Intermediate Credit Banks Supply Money

The responsibility of the 12 intermediate credit banks goes beyond the point of merely providing loanable funds to the production credit associations through the sale of debentures to the investing public. These banks act in the role of supervisor and assist the local associations in their respective districts in

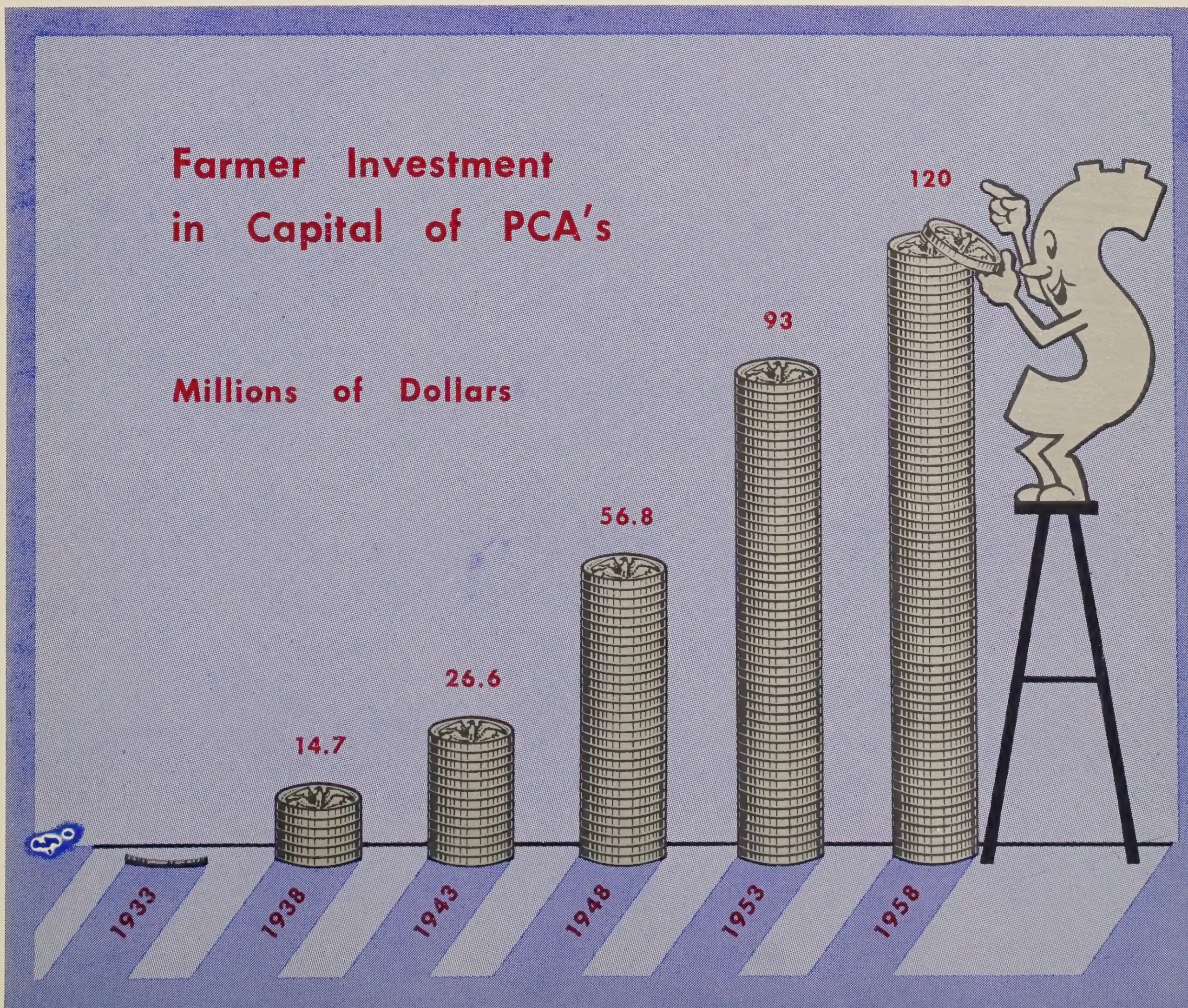
other ways. The supervisory functions are designed to help the associations maintain a sound and constructive credit service and also to protect the members' investments in their credit system.

In their supervisory work, the banks try to help local directors and officers assume greater responsibilities in properly conducting their local affairs. This is, after all, a farmers' credit system and farmers are urged to assume their proper role of leadership.

The banks often conduct training schools and seminars for association directors, officers and employees. The banks offer advice and counsel to the local associations on the most effective educational and promotional programs. In addition, the banks analyze the loan programs of local associations, help them set up budgets and determine long-term financial goals. The banks are required to approve large loans which might jeopardize the reserves of the local associations.

Farm Credit Administration Provides Supervision

Just as commercial banks have governmental supervisory agencies, so does the Production Credit System. The Farm Credit Administration, an independent agency of the Federal Government, supervises the banks and associations of the Farm Credit System. In addition to its supervisory function, the Farm Credit Administration acts as a coordinator for the entire cooperative



INCORPORATED UNDER FARM CREDIT ACT

Production
Credit
Association